

## Extending the investor base

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### Conducting trainings for retail investors

For purposes of extending its investor base and increasing the public's financial literacy, the Exchange conducted educational events for broad public. Four seminars called "How to trade on the securities market" were conducted in 2018 for retail investors.

During the year under review the Exchange took an active part in the country's regional investment forums, themed conferences and trade fairs in sections dedicated to issues of fundraising and investment opportunities for entrepreneurs on the stock market. Within the year representatives of the Exchange participated in seven such events.

As part of KASE's initiative on increasing the financial literacy with regard to the stock market, in 2017 the Exchange started to cooperate with Kazakhstan's higher education institutions. The Exchange has developed and signed memorandums on cooperation with 13 universities with the purpose of arranging educational lectures for students and lecturers.

Since the beginning of 2018 KASE had been establishing cooperation with the "Samuryk-Kazyna" corporate university. Three seminars of the stock market fundamentals were conducted in Astana as part of the corporate secretaries' certification program. As part of cooperation with universities KASE took an active part in conferences and forums they organized.

During 2018 employees of the Exchange delivered guest lectures in ten universities of Almaty. The Exchange has always supported the organization of trainings, on-the-job-trainings and undergraduate trainings for students. In 2018 it took an active part in a project of Al-Farabi Kazakh National University called "National platform of Kazakhstan's open education". More than 30 lectures were delivered for students and lecturers in 2016-2018.

To establish practical experience and increase the financial literacy of the student community and retail investors, the Exchange annually holds two competitions: "Exchange simulator" and "Retail investors' competition".

The "Exchange simulator" competition consists of a series of training trading sessions and is conducted among students of colleges and universities. One of encouragement awards is the possibility for best performing participants to undergo training in a brokerage company.

In 2018 this project saw participation of 1,290 students from more than 35 education institutions. Thanks to the support of financial institutions, 23 students were handed awards. In the course of the competition the amount of transactions exceeded KZT 2.3 bn with 13,426 deals concluded.

During the entire time of the competition, more than 4,500 students from Kazakhstan's 80 universities, from abroad (Turkey, South-East Asia, Great Britain) took part in the competition.

From 2016 the Exchange resumed its project called "Retail investors competition". Individuals being clients of members of the Exchange's stock market are admitted to participation in the competition. During the competition its participants take part in the real trading in shares from KASE Index universe. In 2018 the competition was conducted from November 1 to December 14. The best yield made up 13.7% APR, the second place went to a participant who demonstrated a yield of 8.6%, the third place – 8.2% APR. A total of more than 200 retail investors participated in the competition. In the course of the competition participants concluded 2,588 deals worth more than KZT 256 mln. In 2016-2018 more than 3,000 retail investors participated in the Competition.

## Development and implementation of new instruments

### Stock market

As part of implementation of its development strategy the Exchange has implemented a new exchange product called "Commercial bonds". This type of bonds can be issued only by listed companies for a term of no more than 12 months. Registration and listing of those bonds are carried out according to the simplified procedure and at reduced listing fees which allows companies to raise short-term funds on the stock market quickly and at low cost. Seven issuers used this instrument in 2018. The amount of initial offerings reached KZT 29.8 bn, their yield at offering varied from 9.5% to 11.3% APR. Bonds are traded on the secondary market, too, with the trading volume amounting to KZT 3.6 bn in 2018.

For purposes of including stock market instruments in state programs for entrepreneurship support, the Exchange has initiated a project on implementation of the mechanism of subsidizing the coupon rate on bonds issued by local companies. In association with Damu, RK's Ministry of Economy, NCE "Atameken" KASE worked on promoting amendments to the Entrepreneurial code in terms of inclusion of the subsidizing of the coupon rate on bonds issued by local companies as a form of the state support. As a result of said efforts, suggested amendments were included in the RK's Entrepreneurial code on May 24, 2018. On August 25, 2018 respective amendments to the Business road map-2020 and Rules of subsidizing the coupon rate on bonds issued by local companies, were approved.

Under the Memorandum on mutual cooperation signed between Export insurance company "KazakhExport" JSC and the Exchange for purposes of carrying out the support of Kazakhstan's exporters of commodities, a mechanism was developed for attracting by exporters of debt financing on the stock market by means of issuing and offering of bonds guaranteed by KazakhExport against the issuer default risk.

## Launch of ETF

Shares of the first exchange-traded fund with KASE Index as underlying asset registered under the Irish Law, were included in the Exchange's trading lists in 2018. ETF represents a balanced portfolio of the most liquid instruments and can be seen as an instrument of diversification of investments that allows leveling of risks of particular components and resembles the dynamics of KASE Index on the whole. In October 2018 the trading in KASE Index-based ETF started on Moscow Exchange, and on December 14 – on KASE's market.

On KASE this instrument is classified as securities of investment funds and is traded in tenge. Freedom Finance, the market-maker, ensures the liquidity of the instrument on KASE. By the end of 2018 the amount of trading in KASE Index-based ETF shares exceeded KZT 180 mln on MOEX, and reached KZT 52.5 mln on KASE market.

## Promoting ESG for purposes of information disclosure and ensuring transparency

As part of the UN initiative called "Sustainable Stock Exchanges Initiative", the Exchange in 2016 put into effect the methodology of disclosing information according to Environmental, Social and Governance criteria (hereinafter – ESG) for members of KASE and listed companies. When preparing the methodology, recommendations of the SSE Initiative and PRI principles were studied, as well as the exchange practice of implementing these principles was researched. KASE is one of 32 exchanges worldwide that disseminate the ESG methodology and one of 18 that promote ESG criteria through trainings<sup>1</sup>.

1. data as of January 1, 2017

Since 2017 KASE with support of IFC Kazakhstan had worked on updating the ESG methodology that would take into account the most recent trends in the field of information disclosure according to ESG criteria, as well as would include expert recommendations pronounced during discussions of the ESG methodology, including recommendations on establishing particular sector specifications for main industries of Kazakhstan's economy. KASE and IFC Kazakhstan have jointly developed and put into effect as of March 15, 2018 an updated ESG methodology that included a modern international ESG reporting practice:

- Global reporting initiative (GRI);
- International Integrated Reporting Council (IIRC);
- Sustainability Accounting Standards Board (SASB);
- Many initiatives among stock exchanges as part of the "Sustainable Stock Exchanges Initiative", including Malaysia, Brazil, Singapore and Hong Kong.

Currently, the updated ESG methodology takes account of the broader list of ecological and social issues, corporate governance issues, it features the list of key performance indicators with regard to those issues and a guideline on sector specifications.

On March 15, 2018 KASE and IFC Kazakhstan conducted a round table with participation of representatives of AFK, listed companies, members of the Exchange, local experts in the field of preparation of annual reports, auditing firms and representatives of other organizations. The Exchange's updated methodology was presented at that event, and experts delivered presentations on issues of the introduction and importance of ESG criteria. Based on the discussion results, the Methodology presented by the Exchange and IFC Kazakhstan received positive comments.

Taking into account that listed companies and members of KASE need to gather experience and skills in preparing an ESG report, the Exchange took a decision to present such report as a recommendation. KASE plans to promote the new ESG methodology by way of conducting special seminars and meetings on discussing ESG reporting requirements.

## Launch of KASE Startup

On April 9, 2018 KASE launched KASE Startup. The platform is dedicated to establishing communications between start-ups and investors. Participants of the platform will be provided the possibility to conclude at the Exchange deals involving purchase and sale of stakes in start-ups through professional participants of the stock market. The participants will be able to use all advantages of KASE's infrastructure. Only companies incorporated as an LLP may be admitted to the platform as participants. A start-up should comply with one of the following criteria:

- availability of a certificate of registration of one of the Exchange's partners (business incubator, investment fund, consulting and crowd-funding company) that signed a memorandum with KASE regarding development of the platform;
- availability of an investment fund as an investor which not earlier than a year before the application submission was included in partners of the start-up;
- availability of sales with regard to the business line to be financed.

On October 3, 2018 the Exchange conducted the first open presentation of the platform whereby representatives of KASE, business incubators, start-ups and investment funds addressed interested parties. Based on results of the event, a memorandum was signed with participants of that market.

The Exchange has developed internal documents regulating the operation of the platform:

- Rules of admission to KASE Startup;
- Regulations on the procedure of concluding deals and execution of settlements on KASE Startup;
- Regulations on fees on KASE Startup.

For operation of the platform a special website <https://startup.kase.kz/> was developed, which is the main resource for the communication between the administration of the platform, investors, start-ups and business incubators.

As of January 1, 2019, 2,543 users were registered on the website of the platform. 9 start-ups began disclosing information, 6 start-ups were admitted to the platform. Six business incubators and four consulting companies were partners of the platform.

### **KASE Private Market**

As part of the task of detecting and implementing instruments potentially attractive for investors, KASE has developed a project on providing investors with a possibility to participate in prospective projects through trading in LLP stakes and diversification of their investment portfolios – creation of KASE Private Market. It was launched in June 2018. Direct investment funds have the chance to attract investments at the stage of fundraising, as well as at the stage of quitting the projects, and local small and medium-sized businesses obtained access to equity financing.

### **Improving the standing of the stock market in international classification ratings**

Implementation of the Strategy was associated with measures aimed at improving the liquidity and upgrading the stock market's infrastructure. Thus, as part of efforts to develop clearing activities, a switch to the T+2 settlement scheme was carried out for new instruments. For purposes of improving the risk management system, the single limit mechanism was introduced which allows participants to more efficiently manage available liquidity. The main goal of implementation of those projects is providing clients of the Exchange with high quality services complying with international standards of the stock exchange business. As a result of efforts, in September 2017 agency FTSE assigned the "Frontier Markets" status to Kazakhstan's stock market. Efforts aimed at improvement of ratings of Kazakhstan's stock market from S&P, MSCI, FTSE are provided for in the Action plan on implementation of the Plan of joint actions of the government of the Republic of Kazakhstan and the National Bank of the Republic of Kazakhstan for 2018 – 2021.